

Economic Insights

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Henry Hazlitt

Journalist Advocate of Free Enterprise

Understanding economic theory is hard. Most people don't read economics directly, but absorb what they know through the popular press. For this reason, journalists have always played a key role in educating their readers on complex topics.

Henry Hazlitt was such a journalist. He wrote clearly and accurately about what—in the hands of lesser writers—can be made into one of the more obscure topics a person can study. Writers who can clarify and simplify the complex field of economics for their readers have been rare. In that respect, Hazlitt reminds us a great deal of our old friend—and my hero—Frédéric Bastiat, perhaps the world's most influential popularizer of economic arguments.

Hazlitt gives Bastiat the credit for inspiring his own immensely influential book, *Economics in One Lesson*, by relating in full at its beginning Bastiat's famous anecdote, "The Seen and the Unseen." For it is what is *not* seen that is often so very important in appraising different economic policies. And Hazlitt, like Bastiat before him, provided surefooted guidance during the several decades during which he wrote about economics for some of America's most notable publications.

It is fitting that here in the Dallas Fed's economic education series, *Economic Insights*, having already celebrated the work of the 19th century's most famous economic journalist, we should now add the 20th's as well.

—Bob McTeer

President

Federal Reserve Bank of Dallas

Henry Stuart Hazlitt was born in Philadelphia in 1894. His father died when Henry was quite young, and his mother placed him in Girard College, a home for fatherless boys.¹ Henry was successful in school and entered tuition-free City College of New York but was forced to withdraw to support his newly widowed mother.

With no degree and few skills, Hazlitt tried job after job but was always fired quickly in the fluid labor market of that time. He did, however, learn something at every opportunity, until he finally was able to work as an office boy at \$5 per

week. When he discovered that secretaries earned \$15 per week, he enrolled in a secretarial school to learn shorthand and typing. These early experiences contributed to Hazlitt's understanding of, and appreciation for, the way free markets offer people opportunity and choice.

Even with his newly acquired skills, Hazlitt still changed jobs frequently, before deciding what he really wanted to be: a newspaper reporter. He applied to the *Wall Street Journal*, which hired him to take dictation from the editorial page staff and over the telephone from off-site reporters. With a talent for writ-

Increased Production: The Only Cure for Poverty

One of the worst features of all the plans for sharing the wealth and equalizing or guaranteeing incomes is that they lose sight of the conditions and institutions that are necessary to create wealth and income in the first place. They take for granted the existing size of the economic pie; and in their impatient effort to see that it is sliced more equally they overlook the forces that have not only created the pie in the first place but have been baking a larger one year by year.

The only real cure for poverty is production.

The way to maximize production is to maximize the incentives to production. And the way to do that, as the modern world has discovered, is through the system known as capitalism—the system of private property, free markets, and free enterprise. This system maximizes production because it allows a man...freedom to earn and to keep the fruits of his labor....When each of us recognizes that his reward depends on his own efforts and output, and tends to be proportionate to his output, then each has the maximum incentive to increase his effort and output....

...the condition of poverty, moreover, is relative rather than absolute. What we call poverty in the United States would be regarded as affluence in most parts of Africa, Asia, or Latin America. If an income sufficient to enable a man to "to live with dignity" ought to be "guaranteed" as a matter of "absolute right," why don't the advocates of a guaranteed income insist that this right be enforced first of all in the poor countries...where the need is most widespread and glaring? The reason is simply that even the better-off groups in these nations have not produced enough wealth and income to be expropriated and distributed to others....

Allowed to continue to operate with even the relative freedom that it has enjoyed in recent years, the capitalist system will continue to produce these miracles. It will continue to make progress against poverty by a *general* increase in income and wealth. But short-sighted and impatient efforts to wipe out poverty by severing the connection between effort and reward can only lead to the growth of a totalitarian state, and destroy the economic progress that this country has so dearly bought. ■

—From *Man vs. the Welfare State*, 95–97

ing and self-expression, Hazlitt was able to supplement his income by contributing—at 75 cents each—many pieces to the *Journal's* “By-the-Way” column. During these early years, Hazlitt received a largely self-taught education in financial affairs and in writing for publication.

As is always true of self-education, he relied heavily on intense reading of literary and philosophical classics, devouring such writers as William Shakespeare, Charles Darwin and Herbert Spencer. He tried to educate himself about the philosophical foundations of the important social and economic issues of the day.

Hazlitt was only 22 when *Thinking as a Science*—the first of his many books—was published.² In 1916, Hazlitt left the *Wall Street Journal* to write economic columns for the *New York Evening Post* and, soon thereafter, for the *New York Daily Mail*. During America's years of involvement in World War I, he served in the Army Air Corps, returning to his old job at the *Evening Post* in uniform the day he got home at the war's conclusion.

Hazlitt's desire to be a writer was as strong as ever, and he resumed his self-education through reading, especially about economic issues. He was influenced greatly by several books during this period, among them Philip Wicksteed's *The Common Sense of Political Economy*, Benjamin Anderson's *The Value of Money* and Ludwig von Mises' *Theory of Money and Credit*. These works led him to an intellectual understanding of the pro-free-market Austrian school, an understanding that later became personal when he championed the school's leading theoreticians in print, and then met and became friends with them.

Hazlitt met Mises when the latter fled Europe in 1940 to escape the problems being created by World War II. Hazlitt had praised Mises' book *Socialism* in a *New York Times* review in 1938 and applauded his *Human Action* when it appeared in 1949. Hazlitt also avidly supported F. A. Hayek's 1944 national best-seller *The Road to Serfdom*.

Long Before the Microsoft Case, Some Commonsense Ideas about Competition and Monopoly

The fears of most economists concerning the evils of “monopoly” have been unwarranted and certainly excessive. In the first place, it is very difficult to frame a satisfactory definition of economic monopoly. If there is only a single drug store, barber shop, or grocery in a small isolated town (and this is a typical situation), this store may be said to be enjoying a monopoly in that town. Again, everybody may be said to enjoy a monopoly of his own particular qualities or talents....

On the other hand, nearly all economic monopolies are limited by the possibility of substitution. If copper piping is priced too high, consumers can substitute iron or plastics; if beef is too high, consumers can substitute lamb; if the original girl of your dreams rejects you, you can always marry somebody else. Thus, nearly every person, producer, or seller may enjoy a quasimonopoly within certain inner limits, but very few sellers are able to exploit that monopoly beyond certain outer limits. There has been a growing literature in recent years deploring the absence of perfect competition; there could have been an equal emphasis on the absence of perfect monopoly. In real life competition is never perfect, but neither is monopoly....

The real problem is not whether or not there is “monopoly” in a market, but whether there is monopolistic pricing....

The theory that there can be such a thing as a monopoly price, higher than a competitive price would have been, is certainly valid. The real question is, how *useful* is this theory either to the supposed monopolist in deciding his price policies or to the legislator, prosecutor, or court in framing antimonopoly policies? The monopolist, to be able to exploit his position, must know what the “demand curve” is for his product. He does not know; he can only guess; he must try to find out by trial and error. And it is not merely the unemotional price response of the consumers that the monopolist must keep in mind; it is what the effect of his pricing policies will probably be in gaining the good will or arousing the resentment of the consumer. More importantly, the monopolist must consider the effect of his pricing policies in either encouraging or discouraging the entrance of competitors into the field. He may actually decide that his wisest policy in the long run would be to fix a price no higher than he thinks pure competition would set.

In any case, in the absence of competition, no one *knows* what the “competitive” price would be if it existed. Therefore, no one knows exactly how much higher an existing “monopoly” price is than a “competitive” price would be, and no one can be sure whether it is higher at all!

Yet antitrust policy, in the United States at least, assumes that the courts can know how much an alleged monopoly or “conspiracy” price is above the competitive price that might have been.... ■

—From *Man vs. the Welfare State*, 42–46

Although the work of these Austrians influenced him enormously, Hazlitt remained an eclectic thinker whose economics blended classical, neoclassical and Austrian insights.

Hazlitt's principled defense of free markets and politically unpopular positions cost him editorial jobs. He refused to blame capitalism for the Great Depression (*The Nation*), promote the New Deal or the Bretton Woods agreement (*The New York Times*), or endorse the Great Society and the ever-growing welfare state (*Newsweek*). In 1951, he wrote *The Great Idea* (later reprinted as *Time Will Run Back*), a remarkable novel in which, under

new ruler Peter Uldanov—a sort of futuristic Peter the Great—the Soviet Union rediscovers free markets. Although pessimistic in its portrayal of Soviet domination of the United States, overall the book is optimistic. Peter ultimately triumphs against Bolshevik counterrevolutionaries, and the novel argues that great ideas can never be permanently lost or repressed because the truth can always be rediscovered by the application of human reason.

Hazlitt is best known for his 1946 book *Economics in One Lesson*, a collection of short refutations of economic fallacies prevalent at the time. When first published, the book immediately

Enduring Fallacies in Protectionist Theory and Policy

An American manufacturer of woolen sweaters goes to Congress or to the State Department and tells the committee or officials concerned that it would be a national disaster for them to remove or reduce the tariff on British sweaters. He now sells his sweaters for \$30 each, but English manufacturers could sell their sweaters of the same quality for \$25. A duty of \$5, therefore, is needed to keep him in business. He is not thinking of himself, of course, but of the thousand men and women he employs, and of the people to whom their spending in turn gives employment. Throw them out of work, and you create unemployment and a fall in purchasing power, which would spread in ever-widening circles....

...the fallacy comes from merely looking at this manufacturer and his employees, or merely at the American sweater industry. It comes from noticing the results that are immediately seen, and neglecting the results that are not seen because they are prevented from coming into existence....*

The tariff is repealed; the manufacturer goes out of business; a thousand workers are laid off; the particular tradesmen whom they patronized are hurt. This is the immediate result that is seen. But there are also results which, while much more difficult to trace, are no less immediate and no less real. For now sweaters that formerly cost \$30 apiece can be bought for \$25. Consumers can now buy the same quality of sweater for less money, or a much better one for the same money. If they buy the same quality of sweater, they not only get the sweater, but they have \$5 left over, which they would not have had under the previous conditions, to buy something else....With the \$5 left over they help employment in any number of other industries in the United States.

But the results do not end there. By buying English sweaters they furnish the English with dollars to buy American goods here....They [the British] are, in fact, eventually *forced* to buy more from us if their dollar balances are not to remain perpetually unused. So as a result of letting in more British goods, we must export more American goods. And though fewer people are now employed in the American sweater industry, more people are employed—and much more efficiently employed—in, say, the American washing-machine or aircraft-building business. American employment on net balance has not gone down, but American and British production on net balance has gone up. Labor in each country is more fully employed in doing just those things that it does best, instead of being forced to do things that it does inefficiently or badly. Consumers in both countries are better off. They are able to buy what they want where they can get it cheapest....

The tariff has been described as a means of benefiting the producer at the expense of the consumer. In a sense this is correct. Those who favor it think only of the interests of the producers immediately benefited by the particular duties involved. They forget the interest of consumers who are immediately injured by being forced to pay these duties....It is not true that it [the tariff] benefits all producers as such. On the contrary...it helps the protected producers at the expense of all other American producers, *and particularly of those who have a comparatively large potential export market.* ■

—From *Economics in One Lesson*, 75–77, 81

*See “Frédéric Bastiat: World-Class Economic Educator,” *Economic Insights*, (Vol. 3, no. 1) for the origins of the “seen and unseen” distinction. This publication is available on the Dallas Fed’s web site, www.dallasfed.org.

made the *New York Times* best-seller list but disappeared rapidly because only 3,000 copies were printed, despite its serialization in *Reader’s Digest*. Since that original misstep, the work has been reprinted many times, translated into at least eight languages and has sold over a million copies.

In 1959, Hazlitt published *The Failure of the ‘New Economics,’* his chapter-by-chapter critique of John Maynard

Keynes’ *The General Theory of Employment, Interest, and Money*. Many academic economists dismissed the work because Hazlitt was not one of them. But it remains a fascinating, clear and hard-hitting analysis of many of Keynes’ contentions that have come to be seen as weaknesses in *The General Theory*. Hazlitt also edited a 1960 volume of essays by other economists critical of various aspects of Keynes’ doctrines.³

After leaving the grind of daily journalism, Hazlitt continued to write prolifically. Along with books that touched on many topics, he wrote short articles on freedom and free markets for *The Freeman*, a publication of the Foundation for Economic Education. He completed his final book, on the Stoic philosophers, when he was 90 years old. By the time he died in 1993 at age 98, he had written 20 books and countless book chapters, magazine articles and newspaper editorials. At a dinner honoring him on his 70th birthday in 1964, Hazlitt closed his speech with these memorable words:

“Even those of us who have reached and passed our 70th birthdays cannot afford to rest on our oars and spend the rest of our lives dozing in the Florida sun. The times call for courage. The times call for hard work. But if the demands are high, it is because the stakes are even higher. They are nothing less than the future of human liberty, which means the future of civilization.”⁴

No one worked harder, nor had the courage of his convictions more, than Henry Hazlitt, a tireless advocate for free markets who devoted his life to communicating important ideas to everyday people. He was, as the great American writer and satirist H. L. Mencken once said, “one of the few economists in human history who could really write.” ■

—Robert L. Formaini
Senior Economist

Notes

¹ Greaves, Bettina Bien, 1993, “A Man for Many Seasons,” in *The Wisdom of Henry Hazlitt* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education). Much biographical detail in this article relies on Greaves’ account, pp. 11–26.

² Rockwell, Llewellyn. “Henry Hazlitt.” www.mises.org/hazlittbio.asp

³ *The Critics of Keynesian Economics*, 1960 (Princeton, N.J.: D. Van Nostrand).

⁴ *The Wisdom of Henry Hazlitt*, 1993 (Irvington-on-Hudson, NY: Foundation for Economic Education), p. 48.

Sources and Suggested Reading

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Please address all correspondence to
Economic Insights
Public Affairs Department
Federal Reserve Bank of Dallas
P.O. Box 655906
Dallas, TX 75265-5906
Visit our web site at www.dallasfed.org.

A Remarkable Prediction

...Precisely what is poverty? Of the thousands of books and articles on the subject that have appeared over the last two centuries, it is astonishing how few have troubled to ask this question. Their writers have taken it for granted that both they and their readers know precisely what is being discussed.

It is obvious, however, that all merely relative definitions of poverty make the problem insoluble. If we were to double the real income of everybody, or multiply it tenfold, there would still be a lowest third, a lowest fifth, a lowest tenth.

Comparative definitions lead us, in fact, into endless difficulties. If poverty means being worse off than somebody else, then all but one of us is poor. An enormous number of us are, in fact, **subjectively** deprived. As one writer on poverty succinctly put it nearly sixty years ago: "It is part of man's nature never to be satisfied as long as he sees other people better off than himself."...

Most of those who try to frame a definition of poverty no doubt have in mind some practical purpose to be served by such a definition. The purpose of the Federal bureaucracy is to suggest that any income below its definition constitutes a problem requiring government relief....If we go back only a little more than forty years ago in our own country, we find that in the so-called prosperous year 1929 more than half of the people in the United States would have been labeled "poor" if the "poverty-threshold" [inflation adjusted] income since developed by the Council of Economic Advisers had then been applied....

It is difficult, and perhaps impossible, to frame a completely objective definition of poverty. Our conception of poverty necessarily involves a value judgment. People in different ages, in different countries, in different personal circumstances, will all have different ideas of what constitutes poverty, depending on the range of conditions to which they themselves are accustomed. But while the conception of poverty will necessarily be to some extent relative and even individual, we should make every effort to keep it as objective as we can. Otherwise if, for example, our national income in real terms continues to rise as much in the next forty years as in the past forty years, our social reformers will tend to raise correspondingly their standard of what constitutes "poverty." And if this happens, **the paradoxical result will be that the problem of poverty will seem to them to be getting larger all the time when it is really getting smaller all the time.** [Emphasis added] ■

—From *The Conquest of Poverty*, Chapter 3

Why Socialism Doesn't Work

But how can this appallingly complex problem of supplying goods in the proportions in which consumers want them, and with the most economical production methods, be solved if the institutions of capitalism—private ownership, competition, free markets, money, prices, profits and losses—do not exist?

Suppose that all property—at least in the means of production—is taken over by the State, and that banks and money and credit are abolished as vicious capitalist institutions. How is the government to solve the problem of what goods and services to produce, of what qualities, in what proportions, in what localities, and by what technological methods?

There cannot, let us keep in mind, be a hundred or a thousand different decisions by as many different bureaucrats, with each allowed to decide independently how much of one given product must be made. The available amount of land, capital, and labor is always limited.

We must keep in mind that without free competitive markets, money, and money prices, he [the economic planner] would be helpless....

The problems of centralized direction of an economy are so insuperable that in socialist countries there are periodically experiments in decentralization. But in an economy only half free—that is, in an economy in which every factory is free to decide how much to produce of what, but in which the basic prices, wages, rents, and interest rates are blindly fixed or guessed at by the sole ultimate owner of the means of production, the State—a decentralized system could quickly become even more chaotic than a centralized one....

...in brief, socialism is incapable of solving the incredibly complicated problem of economic calculation. That problem can be solved only by capitalism. ■

—From *The Conquest of Poverty*, Chapter 15